



**Central
Intelligence**

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National Intelligence Daily

**Thursday
12 February 1987**

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~~Top Secret~~

CPAS NID 87-035JX

12 February 1987

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BRAZIL:**Economic Decline Portends Political Changes**

President Sarney's inaction in the face of rapidly deteriorating economy could lead quickly to runaway inflation, widespread discontent, and an impasse with Western bankers.

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Interest rates soared to 800 percent this week as a result of the government's decontrol of prices last week. Preliminary estimates indicate that inflation hit 16 percent last month and will jump to 20 percent this month, an annual rate of 900 percent.

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These trends have caused dissension within the government's economic team; the president of the Central Bank—an advocate of strict economic adjustment—resigned Tuesday.

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A majority of the Brazilians surveyed in recent opinion polls regard Sarney's elimination of price controls a failure and favor another price freeze to stem the inflation. The US Consulate in Rio de Janeiro reports that business leaders are harshly critical of the administration. The press reports that farmers today will stage a mass protest in Brasilia over the skyrocketing interest rates. The leader of Brazil's largest television and newspaper chain recently took Sarney to task publicly for his lack of leadership.

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The US Embassy reports that the delegates to the Brazilian Constituent Assembly, which opened last week to begin drafting a new constitution, overwhelmingly favor shortening Sarney's term and eliminating his power to issue decrees. Sentiment is also strong for passing a law limiting payments on the country's foreign debt and for placing restrictions on multinational companies.

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According to press reports, Ulysses Guimaraes, leader of both the ruling Democratic Movement Party and the Constituent Assembly, is distancing himself from the President. Sarney has tried to solicit support for his policies from the party's 21 newly elected governors but has failed to gain their approval.

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Comment: Sarney may attempt some dramatic moves to restore public confidence and to avoid becoming a lameduck. He will probably shuffle his cabinet next month and may announce another price freeze in an attempt to preempt additional demonstrations and further labor unrest. This strategy does pose major risks. The public's expectation that inflation will grow and the government's continued expansionary policies could quickly result in hyperinflation. Should his political base erode further, Sarney might suspend payments on the country's foreign debt in an effort to rally popular support and regain control over the ruling party.

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South Pacific Nuclear-Free Zone

— Limit of South Pacific Nuclear-Free Zone
Fiji South Pacific Forum member



Boundary representation is not necessarily authoritative.

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SOUTH PACIFIC:**Reaction to Treaty Decision by US**

The reaction in the South Pacific to the US decision last week not to sign the protocols to the South Pacific Nuclear-Free-Zone Treaty suggests that further criticism is likely. [redacted]

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ND Australian Foreign Minister Hayden expressed disappointment in the decision, according to the US Embassy, and said Canberra had worked hard to assure that the treaty language would protect US interests. Reaction from New Zealand's Prime Minister Lange, a strong proponent of antinuclear legislation, has been relatively mild. He suggested the US could still sign the protocols because current US military practices in the region are consistent with the spirit of the treaty, which allows for the transit of nuclear-armed and nuclear-powered ships. [redacted]

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The harshest reaction has come from Fiji, where the press highlighted Moscow's prompt signature of the protocols. Prime Minister Mara warned that regional and bilateral relations with the US would deteriorate because Washington appeared to be unconcerned about its South Pacific ties. Mara, head of the South Pacific Forum, was also disappointed that Washington did not communicate its decision to him personally, according to the US Embassy. [redacted]

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Reactions from several other island governments—such as Nauru, Papua New Guinea, Kiribati, and the Solomon Islands—have been muted so far, but the staunchly antinuclear sentiment throughout the region will keep the issue alive and may complicate future discussions on US naval visits. [redacted]

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Comment: The Australian Government is unlikely to lessen its commitment to US Navy visits or to the US-Australian joint defense facilities as a result of the US decision, but Prime Minister Hawke's pro-US policies will almost certainly face increased opposition. Moreover, leaders of New Zealand's opposition National Party warned that the US decision greatly improves Lange's efforts to pass antinuclear legislation and will hurt their prospects in the election expected next September [redacted]

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USSR: Demarche on US Activity in Mediterranean

In Moscow's first formal diplomatic reaction to the increased US naval presence in the eastern Mediterranean, an official of the Soviet Embassy in Washington delivered a demarche Monday, stating that continuing US military preparations in the area had caused serious concern in Moscow and cautioning that the use of force in Lebanon would affect Soviet interests in the strategic region. General Secretary Gorbachev, addressing a banquet Tuesday, cited past US "aggression" against Libya and "brute blackmail" of Syria and noted the increased US naval presence in the Mediterranean and the Persian Gulf.

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Comment: The demarche and Gorbachev's mention of the buildup of US forces suggest increased concern in Moscow about the possibility of US military action.

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UNO Assembly

Political Parties	Seats	Comments
Nicaraguan Democratic Development	2	Adolfo Calero's party.
Nicaraguan Conservative Party in Exile	2	Generally backs Calero.
KISAN (Indian organization)	1	Group's representative played key role in recent Assembly elections.
Nicaraguan Democratic Movement	2	Alfonso Robelo's party.
Nicaraguan Democratic Union	2	Generally supports Cruz and Robelo.
Constitutionalist Liberal Party in Exile	2	Generally backs Calero.
Independent Liberal Party in Exile	2	Generally supports Calero.
Nicaraguan Social Christian Party in Exile	2	Generally backs Cruz and Robelo.
Nicaraguan Social Democratic Movement in Exile	2	Party leader is longtime supporter of Calero.
Democratic Action	2	Arturo Cruz's party.
Labor Groups		
Solidarity of Nicaraguan Democratic Workers	2	Generally backs Cruz and Robelo.
Committee of Nicaraguan Democratic Workers	2	Generally supports Calero.
Private-Sector Groups		
Nicaraguan Private Sector in Exile	4	Represents agriculture, industrial, commercial, and livestock sectors of Nicaraguan economy.

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NICARAGUA: Role of Rebel Assembly

Nicaraguan rebel leaders are reassessing the role of the Unified Nicaraguan Opposition's assembly, apparently prompted by Arturo Cruz's announced resignation from the three-man UNO directorate.

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Comment: Moves by the insurgent political strategists to broaden representation in the assembly and to give it a greater role in selecting new directorate members might help repair the damage from Cruz's pending resignation and perhaps reduce factional infighting. Meanwhile, talks reportedly are under way to end the walkout by representatives backing Cruz and Alfonso Robelo—the third directorate member. Rebel military leaders probably will resist reforms that would give the assembly a voice in running the war. Some political leaders may conclude that the best course would be to abolish the assembly.

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PHILIPPINES: More Talks on Muslim Autonomy

Representatives of the Moro National Liberation Front, the largest Muslim rebel faction in the Philippines, opened preliminary discussions with the government this week on regional autonomy for Muslim-dominated areas of Mindanao. Other Muslim factions boycotted the talks in Manila, refusing to subordinate themselves to the group, according to the US Embassy. The second-largest Muslim faction, the Moro Islamic Liberation Front, is threatening to abandon its cease-fire with the government; it has announced it is negotiating a tactical alliance with the Communist insurgents.

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Comment: Although the US Embassy reports that the MNLF will present its proposal for autonomy at meetings scheduled later this month in Mindanao, the negotiations are likely to drag on for months. The government does not have a coherent policy for dealing with the Muslims, and its chief negotiators are likely to resign soon to run for the Senate. The rivalry among the Muslim factions over leadership and strategy is intense. If the talks stall, the factions will probably renew the violence to regain Manila's attention. Communism is anathema to Philippine Muslims; serious cooperation between Muslims and Communists is unlikely.

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JAPAN: Storm Over Sales Tax

Japanese Prime Minister Nakasone's tax reform package is under widespread attack and could become a serious political liability. Opposition parties have boycotted most proceedings of the Diet session that opened last month and are organizing demonstrations to protest proposed sales tax legislation. Many business organizations, traditionally strong supporters of the ruling Liberal Democratic Party, are also demanding changes in the plan. Many ruling party legislators—particularly those from urban constituencies—remain unenthusiastic about the bill despite formal party endorsement of the sales tax, according to the US Embassy.

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Comment: Nakasone expected attacks from opposition parties and business groups, but if ruling party support for the sales tax unravels, his rivals could gain the ammunition they need to ensure that he steps down next October. Party reaction to the specific provisions of the tax bill, which will be unveiled next week, should indicate more clearly whether Nakasone could come under even more pressure—including suggestions that he leave office early.

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CYPRUS: UN Efforts Only Partly Successful

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NP The visit to Cyprus last week by representatives of UN Secretary General Perez de Cuellar has probably only temporarily halted the deterioration of relations between Greeks and Turks on the island. The UN officials urged Greek Cypriots to allow the UN more time to resolve their two major complaints—Turkish settlement in the restricted area of Varosha and the increase in the number of Turkish troops on the island. The Greek Cypriots urged speed, warning that they might take the issue to the Security Council. The Turkish Cypriots, backed by Turkish President Evren, said they have no intention of altering their course. [REDACTED]

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Comment: The threat to go to the Security Council seems to have been averted for the moment, but Cypriot President Kyprianou faces increasing public pressure and will feel the need to show some progress as next year's presidential election nears. Any action Kyprianou might take would almost certainly prompt the Turkish Cypriots to take further steps toward full independence, such as closing the border. Evren's intransigence suggests that the Turks might no longer restrain such activity. [REDACTED]

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EAST GERMANY-USSR: Another Challenge to Status of Berlin

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NP East Germany and the USSR are trying to use the confidence-building measures established at the Conference on Disarmament in Europe to induce the 35 CSCE participants to attend a military briefing in East Berlin, a meeting that would compromise British, French, and US rights in Berlin. The East German Foreign Ministry recently notified Western embassies of a coming Soviet-East German military exercise totaling 25,000 men—95 percent of whom will be Soviets—and invited the embassies to send observers to the briefing at an East German Defense Ministry facility in the city. The US Embassy in Bonn believes this is the first time East Germany has explicitly announced the presence of a defense facility in East Berlin. Such an installation would be inconsistent with the city's demilitarized status under the wartime and postwar agreements and decisions of the Four Powers. [REDACTED]

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Comment: This challenge is less blatant than that represented by East Berlin's attempt to impose passport and visa controls last spring. The East Germans may believe that the chance to attend a Warsaw Pact military exercise would produce pressure from other Western states on the Allied Powers to overlook East Berlin's attempt to infringe the formal status of Berlin. Moscow was undoubtedly a party to this slap at the Allies' rights in Berlin but probably calculates that no blame can be allotted the USSR if Allied observers refuse to attend the briefing. [REDACTED]

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USSR-ITALY: Relocating Trade Mission

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The USSR plans to move its trade mission in Italy from Rome to Milan as soon as possible, [redacted]

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[redacted] the relocation will give the Soviets access to more than 80 percent of Italy's technical and industrial information base. [redacted]

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Comment: Although the 80-percent figure may be exaggerated, the Soviets' overall science and technology collection effort in Italy is extensive and will be improved by this move. [redacted]

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[redacted] Italian firms that sell advanced technology to the USSR commonly host Soviet delegations and include on-site training as part of sales agreements. [redacted]

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Iran-Iraq Military Developments, 11 February

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In Brief*on 11 Feb***Middle East***6/5*

- **Iran** claims, **Iraq** denies Revolutionary Guard, Kurdish forces conducted guerrilla operations deep inside Iraq yesterday... Baghdad resuming air attacks on civilians... during stalemate at Al Basrah both sides want to appear aggressive elsewhere.

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- **South Yemeni** Socialist Party chief in Moscow... met Gorbachev Tuesday... probably discussing refugee problem, relations between Yemens... Soviet media stressing USSR's support.

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- **Egyptian** official has announced plans for production of surface-to-surface missiles... probably Soviet Scud-B design, reverse-engineered with **North Korean** assistance... series production not likely for at least two years.

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East Asia

— [Redacted]

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— [Redacted]

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- **Australia** interested in **Taiwan's** new jet trainer, [Redacted]... would be Taipei's first foreign sale... Taipei wants increased representation in Canberra as part of deal... latter not likely to agree.

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- **Taiwan's** economy grew by almost 11 percent last year... largest increase since 1981... Taipei projects 8-percent growth this year... economic gains will encourage President Chiang to move ahead with political reforms.

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- **China** selling soybean surplus from its northeast to **Japan**, [Redacted]... trying to build image as reliable exporter... soybean shortage in southern China will probably be met by imports from US, other sources.

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South Asia

— [Redacted]

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Africa

- **Central African Republic** expelled 80 of 1,100 **French** soldiers, may demand transfer of top officers to protest shooting death of civilian, according to US Embassy . . . little effect on basing agreement, French deployments in **Chad**. [redacted]

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- [redacted] delivery of **Romanian** materiel to **Liberia** . . . includes armored vehicles, artillery, multiple rocket launchers, ammunition . . . Monrovia sought deal because of dissatisfaction with US military aid. [redacted]

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Americas

- **Bolivia's** heavyhanded attempts to end strike at state oil company have broadened stoppage into general strike . . . company provides 60 percent of government revenues . . . curfews, limits on public gatherings likely. [redacted]

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- Leftist **Colombian** labor confederation to protest cost of living, alleged rights abuses today . . . ~~US Embassy~~ reports 50,000 expected, many more than democratic labor recently turned out . . . Communists likely to prevent serious violence. [redacted]

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- **UK** resuming modest aid to **Guatemala** after restoring diplomatic relations in January, according to press . . . likely to improve climate for Guatemala, **Belize** to resolve territorial dispute . . . British will keep garrison in Belize. [redacted]

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Europe

- **Spanish** high school students still demonstrating after failing to reach agreement with government on open university enrollments, tuition . . . joined by Communist unions yesterday . . . may spark wider protests over unemployment, social reform issues. [redacted]

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Special Analysis**ISRAEL-
SOUTH AFRICA:****Relationship Remains Close**

Israeli leaders are debating the future of Tel Aviv's relations with Pretoria, but they are unlikely to reduce substantially their longstanding ties. Israel may have begun slowly to limit some aspects of the relationship, however, particularly military trade, in response to heightened US and international condemnation of apartheid.

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Israel's relationship with South Africa dates from 1948, when Pretoria quickly recognized the newly created Jewish state. The presence in South Africa of a large, affluent Jewish community of nearly 120,000 people has long been a vital link between the two states. During and shortly after the Arab-Israeli war in 1973, most of black Africa broke relations with Tel Aviv, eliminating the main reason why Tel Aviv had previously limited its formal relationship with Pretoria. Since then, Israel has made strenuous efforts to improve its economic, cultural, and military ties to South Africa.

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Bilateral trade has steadily increased since 1973, totaling an estimated \$250 million annually now, according to published official statistics, which exclude such key items as diamonds and military equipment. South Africa provides nearly 60 percent of Israel's coal and large quantities of steel and diamonds. Apart from military goods, Israel exports primarily foodstuffs and finished products—fertilizer and agricultural and electronic equipment—which results in a sizable trade imbalance, according to the published figures, in Pretoria's favor.

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The cultural and financial links between Israel and South Africa's well-to-do Jewish community strengthen Tel Aviv's resolve to maintain good relations with Pretoria. In recent bilateral meetings, Pretoria raised the ceiling on investments that South African Jews can make in Israel from \$20 million to \$40 million a year. These represent the largest per capita financial contribution to the Jewish state from any country.

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Military Sales—Cornerstone of the Relationship

Israel provided increasingly extensive and sophisticated security assistance and military aid to South Africa in the mid-1970s.

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[REDACTED]

Tel Aviv continues to provide at least low-level military assistance, including help in developing South Africa's new fighter aircraft, which is strikingly similar to Israel's Kfir. Israel has almost certainly provided avionics, technology, and technical expertise to enable South Africa to modernize its Mirage III fleet. [REDACTED]

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[REDACTED]

Proponents of the relationship in Israel and South Africa argue that lucrative economic benefits and concern for the well-being of the Jewish community in South Africa militate against a reduction in Israel's close ties. The US Embassy in Tel Aviv reports that Prime Minister Shamir, Foreign Minister Peres, and Defense Minister Rabin, who was instrumental in establishing the close security links that now exist between Tel Aviv and Pretoria, have recently decided to leave relations largely intact. They believe that Israel should take its cue, however, from the US and other Western democracies. [REDACTED]

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Yossi Beilin, the political director in Israel's Foreign Ministry, is campaigning for Tel Aviv to reduce its ties in order to demonstrate a repugnance for apartheid. He warns that Israel risks growing friction with the US and key West European states if it does not do so. [REDACTED]

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Prospects

Shamir, Peres, and Rabin probably already recognize that mounting US and international pressure against South Africa leaves Tel Aviv no choice but to begin at least to distance itself from Pretoria. [REDACTED]

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[REDACTED]

Israeli leaders are acutely sensitive to US concerns and are particularly interested in a coming US study about the arms trade with South Africa. Some are convinced the report will recommend that Israel reevaluate its strategic ties to Pretoria. Israel's public stance is likely to echo US and international criticism of apartheid, but Israeli supporters of the close bilateral relationship apparently still far outnumber those in Israel calling for reduced ties. Thus, any major policy change is unlikely soon. [REDACTED]

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Special Analysis**SPAIN-NATO:****Prospective Contributions**

Spanish officials are meeting with a NATO staff committee to discuss the extent of Spain's participation in the Alliance's military structure. The limited capabilities of Spanish forces and domestic political considerations will probably restrict the pace and extent of Madrid's assumption of military responsibilities in NATO for several years. By the mid-to-late 1990s, however, Madrid is likely to accept limited ground, air, and naval roles short of full integration in NATO's military command structure.

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Official Spanish commentary on the Alliance has become increasingly positive since the referendum on Spain's membership in NATO last March. Madrid proposed substantially greater Spanish participation in NATO decisionmaking and consultative bodies in May; detailed military discussions began in October. Spanish military officers expect de facto Spanish integration into NATO to evolve over the next several years as a result of these proposals and further discussions.

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Potential Roles

Because of domestic political sensitivities, Madrid limited its early proposals after the referendum to noncontroversial support measures, such as logistics and reinforcement, in which Spain would provide billeting and transit areas for NATO personnel, engineering support for reinforcements, or the pre-positioning of equipment. Madrid already provides training facilities for US forces and probably would respond favorably to an Allied request to make available additional training areas for NATO forces.

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This is probably as far as Spain will go over the next several years. Prime Minister Gonzalez will remain reluctant to station Spanish troops outside Spain or to allow them to serve under an Allied commander. He wants to minimize charges by the Spanish opposition that his government is exceeding the limits set by the referendum on Spain's integration into NATO.

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The uneven quality of the Spanish armed forces also currently limits Madrid's ability to contribute tangibly to the Alliance. The Army is the least advanced service, which is the result of outdated weaponry and years of isolation from the rest of Western Europe. The Air Force and Navy are more modern services, but their capabilities beyond Spain's borders and territorial waters are limited. Over time, however, the acquisition of new weapons and other equipment, together with doctrinal revisions, should put Spanish forces more nearly on a par with those of the smaller states in NATO.

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By the mid-to-late 1990s, as Madrid's relationship with NATO matures and the Spanish move closer to de facto military integration, Spain probably will accept a limited ground and air role in the Allied Command Europe Mobile Force, provided that it receives logistic support from other Allies. In addition, the Spanish are likely to permit the Navy to conduct operations eventually alongside other NATO navies. Madrid will probably also permit its marines—with Allied transport assistance—to participate in amphibious operations and other missions. [REDACTED]

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Impact on Allies and the US

The Allies appear to have adopted a wait-and-see approach. They have warned that they will not provide Madrid with a blank check, however, and are clearly concerned that Spain adopt roles commensurate with its capabilities. [REDACTED]

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Over time, increased Spanish participation in NATO will require some painful adjustments by the other Allies. Madrid almost certainly will eventually seek responsibilities of its own along the Balearics-Gibraltar-Canaries axis. Such a bid would reopen old disputes about command arrangements in the Aegean Sea and fuel Portugal's anxiety about a diminution in its role in NATO. Tension between London and Madrid over Gibraltar is also likely to grow as the Spanish play a more active military role in the Alliance. Madrid's agreement to a significantly increased role may be predicated on London's making at least cosmetic concessions on Gibraltar. For example, the UK might permit Spanish military representation there as a symbol of Spain's membership in NATO. [REDACTED]

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In its relations with the US, Madrid is likely to become more confident and aggressive in asserting its own and broader West European interests. Relations will be less close than when Spanish security was tied more directly to bilateral agreements with the US. Nonetheless, Madrid will want to continue military cooperation. [REDACTED]

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